TOTAL PETROLEUM (NORTH AMERICA) LTD.

TOTAL

Annual Report
1973

Facts at a Glance

	1973	1972
Proven oil and condensate reserves (bbls.)	33,428,552	35,859,501
Oil and condensate production (bbls.)	2,413,107	2,028,611
Proven gas reserves (M cubic feet)	189,194,000	175,295,000
Natural gas sales (M cubic feet)	4,882,617	4,437,506
Net land holdings (acres)	4,266,697	4,290,767
Crude oil refined (bbls.)	13,566,316	11,091,413
Refined product sales (bbls.)	14,122,357	15,377,590
Net earnings	$ 9,204,000	$ 3,152,000
Earnings per share	92¢	33¢
Total revenues and other income	$110,601,000	$101,166,000
Working capital	$ 27,952,000	$ 11,493,000
Shareholders' equity	$104,663,000	$ 74,408,000
Total assets	$159,308,000	$131,460,000

TOTAL PETROLEUM (NORTH AMERICA) LTD.

Annual Report
1973

ANNUAL MEETING

The Annual Meeting of Shareholders of the Company will be held at the head office of the Company, 1200 Standard Life Building, 639 - 5th Avenue Southwest, Calgary, Alberta, Canada, at 9:00 a.m. Mountain Daylight Saving Time on Wednesday, May 15, 1974.

TOTAL PETROLEUM (NORTH AMERICA) LTD.

DIRECTORS

Reid Brazell	Frankfort, Michigan
Martin E. Citrin	Bloomfield Hills, Michigan
F. Campbell Cope	Montreal, Quebec
Etienne L. Dalemont	Paris, France
Philippe Dunoyer de Segonzac	Paris, France
J. Camille Genton	Paris, France
James W. Glanville	New York, N.Y.
Andre M. Jacqmin	Alma, Michigan
Linden J. Richards	Calgary, Alberta
David L. Torrey	Montreal, Quebec

OFFICERS

James W. Glanville	Chairman of the Board
Andre M. Jacqmin	President
Paul H. Gutknecht	Vice President - Finance and Treasurer
Kenneth R. Buckler	Vice President - Manufacturing, Supply and Transportation
Bernard C. Duval	Vice President - Exploration and Production
William F. Kellock	Vice President - Production
William G. Tucker	Vice President - Administration, Secretary and General Counsel
John E. Fawke	Vice President - Marketing
Clifton D. Bengtson	Assistant Secretary
Don W. Godfrey	Assistant Secretary
Colin S. MacDonald	Assistant Treasurer

HEAD OFFICE

639 FIFTH AVENUE S.W.
CALGARY, ALBERTA, CANADA T2P 0M9

REGISTRARS

THE ROYAL TRUST COMPANY
Calgary, Regina, Winnipeg,
Toronto & Montreal, Canada.

MORGAN GUARANTY TRUST COMPANY
OF NEW YORK
New York, N.Y., U.S.A.

EXCHANGE LISTINGS

TORONTO STOCK EXCHANGE
MONTREAL STOCK EXCHANGE
AMERICAN STOCK EXCHANGE

U.S. MAIN OFFICE

EAST SUPERIOR STREET
ALMA, MICH. 48801, U.S.A.

TRANSFER AGENTS

MONTREAL TRUST COMPANY
Calgary, Regina, Winnipeg,
Toronto & Montreal, Canada.

MORGAN GUARANTY TRUST COMPANY
OF NEW YORK
New York, N.Y., U.S.A.

AUDITORS

PRICE WATERHOUSE & CO.

PRINCIPAL SUBSIDIARY

TOTAL LEONARD, INC.

TO THE SHAREHOLDERS:

The year 1973 brought many changes in the general situation of the oil industry worldwide and, more particularly, on the North American continent. Fast growing demand and lack of refining capacity in the United States followed by a decrease of crude oil supply, led to an energy crisis. At the same time, the prices of petroleum products reached unexpected high levels to catch up with the increasing prices of crude oil.

Rather than allowing the mechanisms of the free market to readjust, the governments intervened quite abruptly, attempting to reduce the demand and to control the prices.

In Canada, policies and regulations have been adopted by federal and provincial jurisdictions which resulted in limiting the profit which producers might normally have expected and, at the same time, increasing the cost of crude oil to U.S. refineries, including those owned by Canadian corporations. These policies created uncertainties which are not encouraging large investment in oil exploration in Canada at the present time.

In the United States the Federal government has established unprecedented controls over pricing policies and operations of the oil industry. Your Company has, of course, complied with all the Phase IV rules and regulations as well as the recent Federal Energy Office Mandatory Allocation Program.

Improvements were made in nearly every phase of the Company's operations during 1973. Higher earnings came from increased production, slightly improved prices for Canadian crude oil and natural gas, reduced marketing and administrative expenses, and chiefly the elimination of destructive retail gasoline price wars in the United States.

Net income increased to $9,204,000 or 92 cents per share from $3,152,000 or 33 cents per share in 1972. Revenues from all sources totalled $110,601,000, up from $101,166,000 in the previous year. However, we should point out that, if changes occur in the regulations or in the general supply situation, it might well happen that future profits will be penalized at a time when funds are critically needed for important investment purposes.

Production of crude oil and condensate increased by 19%, averaging 6,611 barrels per day. Natural gas sales were also higher, averaging 13,377 Mcf per day for an increase of 10% over the previous year. Refinery throughput averaged 37,168 barrels per day, up from 30,300 barrels per day in 1972, while sales of refined products, due to various Federal Government Fuel Allocation Programs being in force during the latter eight months of the year, declined 8% to a total of 14,122,357 barrels.

Exploration activity was maintained at approximately the same level as that of 1972, although the areas of operation were considerably wider in scope. In addition to the exploratory areas previously engaged in (Michigan, Western and Northern Canada as well as offshore Labrador) new areas such as Indiana, Illinois and offshore Gulf of Mexico saw preliminary entry by the Company during the year under review. To co-ordinate activity in some of these new areas, an office has been opened in Houston, Texas.

We feel it important to emphasize that although the Company's increased earnings in 1973 are encouraging, return on shareholders' equity and capital employed is still less than satisfactory and must be further improved if we are to generate the funds which will be required to meet the sharply rising costs of the Company's search for additional reserves. As an example, our entrance into the very promising areas offshore Gulf of Mexico, the expansion of our exploration activities in Michigan and in some other states of the United States have led us to envisage spending for exploration in 1974 more than double the amount invested in 1973.

In November, 1973 Mr. Linden J. Richards of Calgary, Alberta, an oil and gas consultant with many years experience in the petroleum industry in Western Canada, was elected a Director of the Company following the resignation of Mr. Henri J. Champin who retired from the Board after serving as a Director for seventeen years. We wish to express our thanks and appreciation for the long service and valuable contribution rendered to the Company by Mr. Champin during his term as a Director since October, 1956 and as a Vice President of the Company during the period from October, 1956 to November, 1970.

Once again we express our appreciation of the quality of the job done by the officers and all the employees of the Company, the continued support of our shareholders and the loyalty and confidence accorded us by our customers.

On behalf of the Board of Directors

Andre M. Jacqmin
President

April 1, 1974

Exploration and Development

Your Company drilled or participated in the drilling of thirty-seven exploratory wells and two development wells during the year under review. Interests were also held in seven wells (six exploratory and one development) drilled under farmout by other companies without cost to TOTAL other than acreage contribution. This drilling program resulted in fifteen exploratory successes (eleven gas wells and four oil wells), two gas development wells and one oil development well.

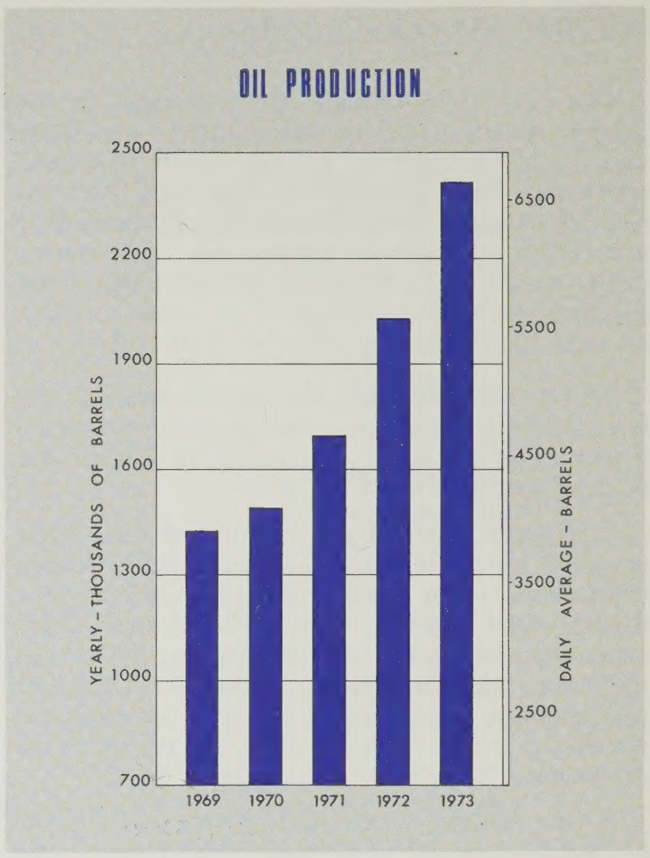
The successful gas development wells are located in the Gilby and Dixonville areas of Alberta and the oil development well is at Hamlin Lake in Mason County, Michigan.

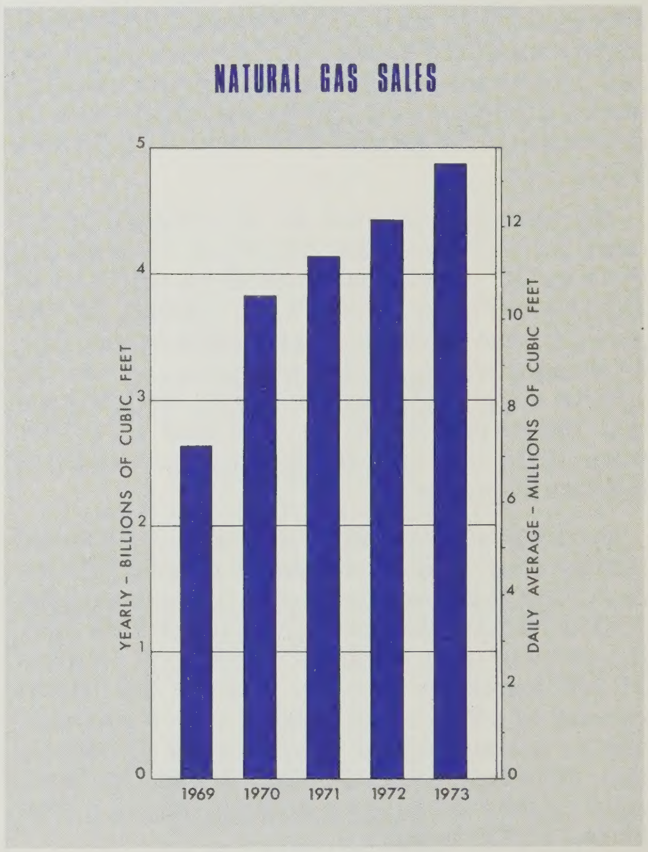
Exploratory drilling in the Hamlin Lake region resulted in three further Niagaran reef discovery wells, two of which were completed as oil producers and the third as a gas well. Further seismic and drilling has been scheduled to delineate and test the numerous small reefs indicated in this area. To the northeast along the North Michigan Niagaran reef trend, your Company has participated in an oil discovery in Manistee County, two gas discoveries in Wexford County, a gas discovery in Grand Traverse County and another gas discovery in Kalkaska County. Seismic and drilling activity in these areas will be continued at the same pace during 1974.

In Alberta, gas discoveries were made in the Bear Canyon region of western Alberta, where the accumulation might be limited, and at Wandering River in eastern central Alberta where extensive follow-up drilling is planned. In British Columbia, your Company participated in four gas discoveries during the year. Of these, two are located in the Liard Basin area (Tattoo and Windflower) and the other discoveries are at Nig Creek and Moberly in northeastern British Columbia. As a result of the two Liard Basin discoveries, an active drilling campaign has been started by TOTAL and its partners and also by other companies in this same area. Three further gas discoveries have been made to date.

In the Liverpool Bay region of northern Canada, your Company participated in two exploratory wells neither of which proved productive.

In the Labrador offshore area, where TOTAL has a 5% interest in approximately 30,000,000 gross acres, two wells were drilled during the

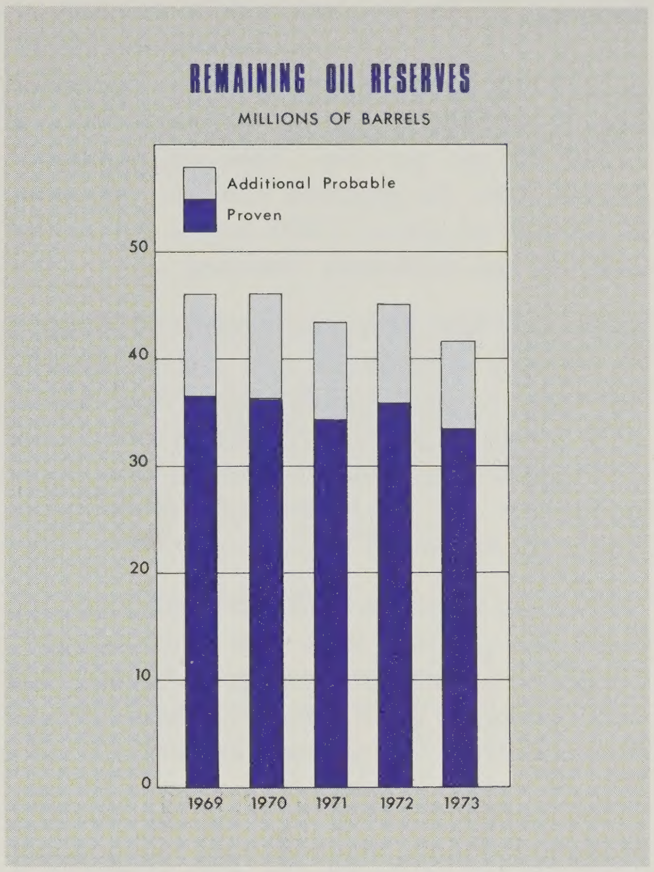




relatively short drilling season in 1973. The first test was abandoned and the second was suspended at a depth of 8,251 feet after encountering hydrocarbon shows. Weather conditions did not permit testing of the second well at the end of the drilling season and the well is to be re-entered for testing in the 1974 operating season.

During 1973, your Company obtained options on approximately 80,000 acres in the Illinois Basin. Seismic surveys have been conducted along with a six-well shallow drilling program in Indiana. One deeper test has been drilled in Illinois and abandoned. Further drilling and seismic will be carried on in these areas during 1974 on various prospects mapped by the 1973 seismic program.

During the latter part of the year, Total American, Inc. (a subsidiary of Compagnie Française des Pétroles) joined an exploration group which was successful in acquiring acreage at the offshore Gulf of Mexico lease sale held in December, 1973. A portion of this interest was acquired on your Company's behalf and negotiations are presently underway with Total American and other members of the group to increase the extent of your Company's participation in this area.

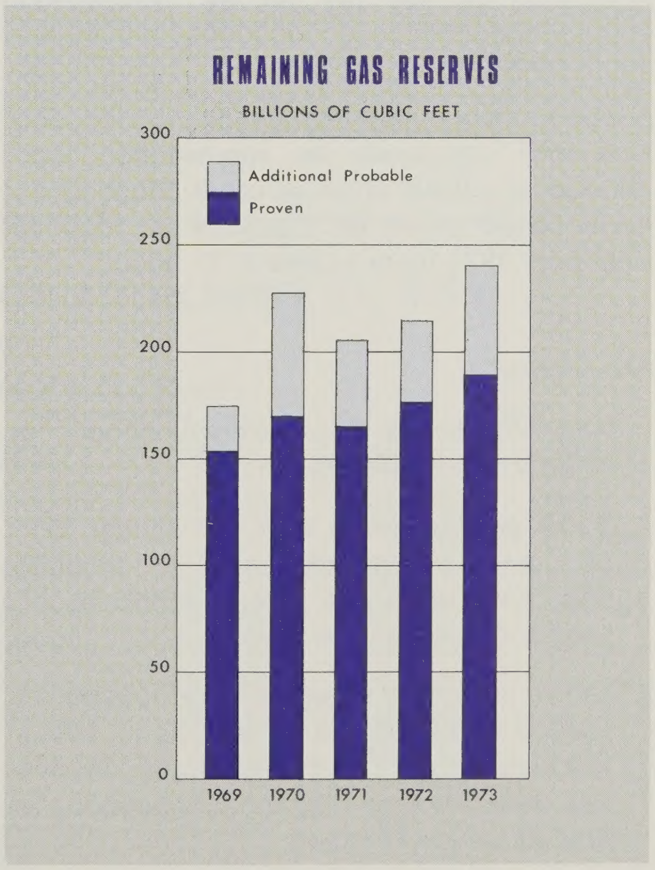


Production and Reserves

Production of crude oil and condensate during 1973 totalled 2,413,107 barrels for an average of 6,611 barrels per day, an increase of 19% over the comparative figures for 1972. Natural gas sales increased by 10% to a total of 4,882 million cubic feet for the year or an average of 13.37 million cubic feet per day.

After providing for the year's production of 2,413,107 barrels, your Company's estimated proven oil reserves at the end of 1973 amounted to 33,428,552 barrels with estimated additional probable reserves bringing the total to 41,601,305 barrels. This compares with a corresponding estimated aggregate of 45,109,215 barrels at the end of the previous year.

The Company's estimated proven developed gas reserves, after making allowance for the year's production of 4,882 million cubic feet, totalled 189,194 million cubic feet at the end of 1973, representing an increase of approximately 8% over the comparative reserve estimate at the end of the preceding year. Estimated additional probable gas reserves at the end of the year amounted to 51,498 million cubic feet.



Refining

1973 was a record year as refining throughput rose to 13,566,316 barrels for an average of 37,168 barrels per day. This was 2,474,903 barrels above the previous year and represents an increase of almost 7,000 barrels per day of crude oil and condensate processed.

Gasoline and light fuel production volumes were substantially greater with gasoline production rising to nearly 19,000 barrels per day in 1973 compared to 13,400 barrels per day in 1972. Light fuel production increased to 9,400 barrels per day in 1973 compared to 7,300 barrels per day in 1972.

Increased throughput and increased production of gasoline and light fuels were achieved mainly due to the major construction projects completed in 1972, namely the 10,000 BPD Platformer and revamp of crude oil processing facilities.

The 44-mile 8" clean products pipeline from Alma to Bay City was completed and put into service during November of 1973. The existing 6" pipeline was converted to crude oil service thus increasing the quantity of crude oil which can be delivered to the Alma refinery.

Federal Regulation dictates that "no lead" gasoline be available for sale on July 1, 1974 and steps are being taken to provide for this requirement.

The Company has been successful in securing long term agreements for approximately two-thirds of its refinery crude oil needs. These agreements should assure the Company of crude oil supply for 1974 up to at least 1973 levels.

Marketing

Marketing profits improved considerably in 1973 for the following reasons:

1. Retail gasoline prices stabilized during 1973 as a result of the cessation of the crippling price wars which had been prevalent in this market for several years past.

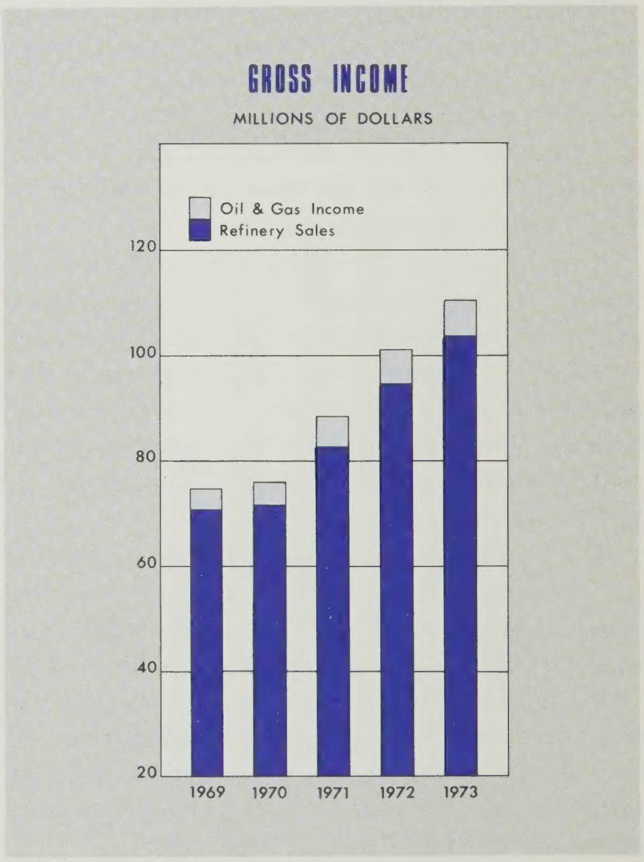
2. Direct marketing expenses were reduced by more than $1,000,000 as a result of further reorganization of the TOTAL Brand Division and the gradual phasing out of advertising as product supply tightened.

3. More realistic prices were obtained for "bottom of the barrel" products such as asphalt and residual fuels.

Despite various Federal Government Fuel Allocation Programs being in force during the latter eight months of the year, which restricted the Company's ability to purchase finished products, overall sales volumes fell by only 8% when compared to 1972.

Sales of gasoline and distillates increased to 80% of total sales in 1973 from 75% in 1972, while residual fuels and asphalt each accounted for 7.5% of total sales in 1973.

Premium gasoline sales, which continued to decline at an accelerated rate as a result of the lower octane requirements of late-model automobiles, were 31% lower than in 1972. "Low lead" gasoline sales were phased out at the end of the year to make way for "no lead" gasoline sales in the second quarter of 1974 to conform with government regulations.



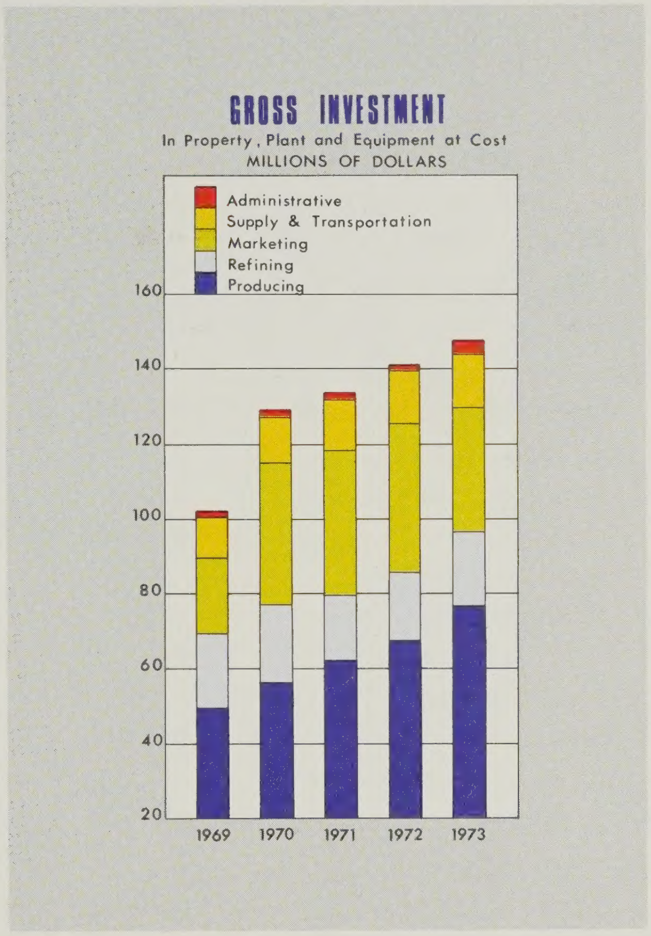
Financial

Net income increased to $9,204,000 or 92¢ per share in 1973 from $3,152,000 or 33¢ per share in 1972. Increased production of oil and gas and improved prices therefor, and reduced marketing and administrative expenses, plus the absence of destructive retail gasoline price wars in the United States were the major factors causing the improved profit.

Earnings per share in 1973 are computed assuming full conversion of Series A Preferred shares into common shares. Because conversion of the preferred shares in 1972 would not have diluted earnings available to the common shareholder, the 1972 earnings per share are computed on the earnings available to common shareholders, being net income less dividends of 70¢ per share paid to preferred shareholders. The average outstanding common shares in 1973 (assuming conversion of preferred shares) amounted to 10,039,760 as opposed to 7,021,207 common shares in 1972.

In November, 1973, 3,287,601 common shares were sold by public offering, from which the Company received net proceeds of $21,823,000. To facilitate the issue and sale of these shares, the authorized capital common stock of the Company was increased from 12,000,000 to 15,000,000 common shares, of which 10,328,847 were outstanding at year end and 2,497,622 reserved for conversion of preferred shares and for share options. Of the funds obtained from the sale of these shares, $18,183,000 was applied in reduction of long term debt and the balance in short term investment.

Working capital at the end of the year amounted to $27,952,000 compared with $11,493,000 at the end of 1972.



CONSOLIDATED LAND HOLDINGS AT DECEMBER 31, 1973

(Acres)

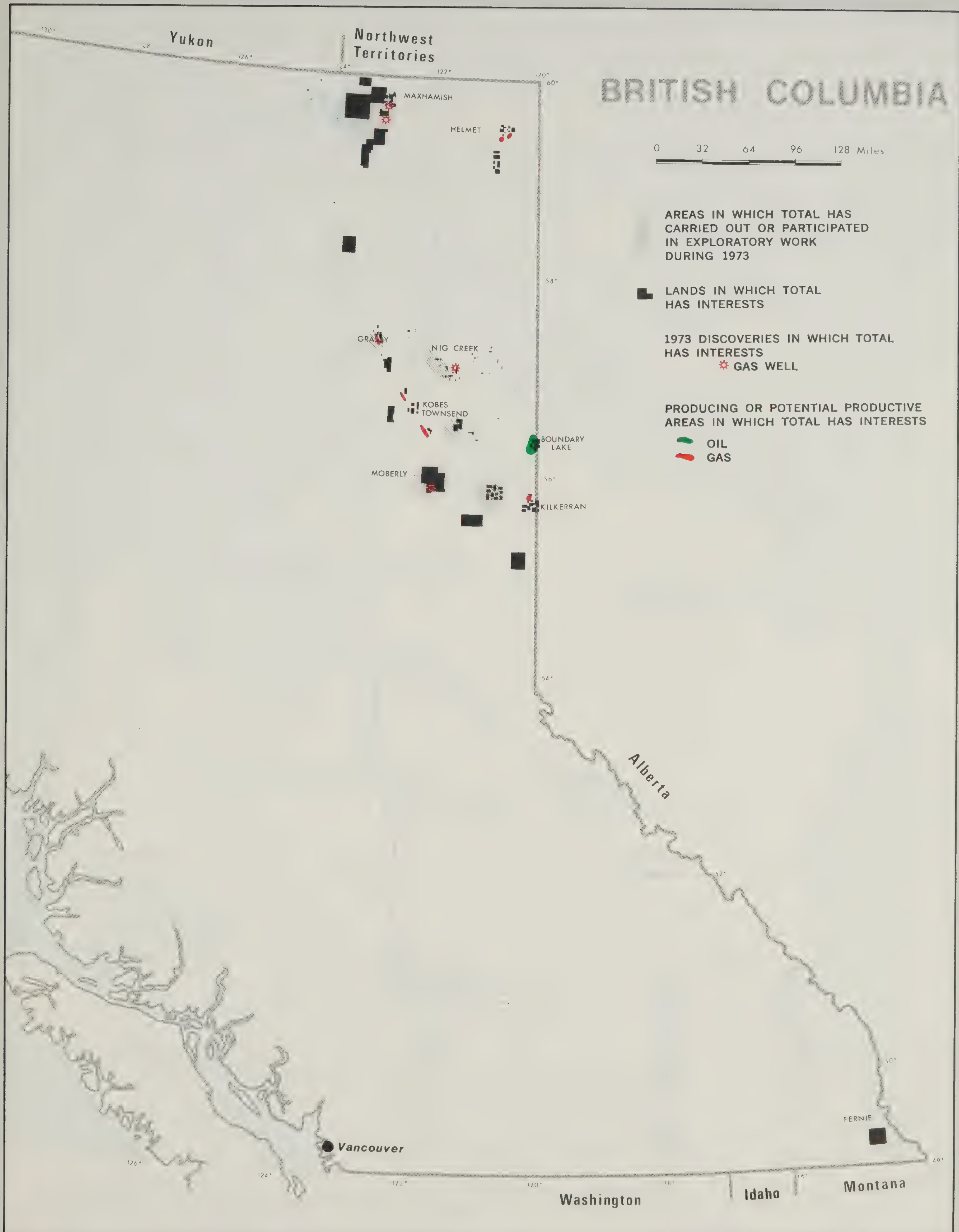
	Petroleum and Natural Gas Leases		Reservations, Permits and Licenses		Total	
	Gross	Net	Gross	Net	Gross	Net
Alberta	936,289	506,084	292,480	163,359	1,228,769	669,443
Saskatchewan	5,763	3,547	—	—	5,763	3,547
British Columbia	195,655	96,602	1,066,598	474,275	1,262,253	570,877
Northwest Territories	—	—	1,699,888	885,302	1,699,888	885,302
Yukon	—	—	449,624	292,612	449,624	292,612
Arctic	—	—	966,651	134,096	966,651	134,096
Labrador (Offshore)	—	—	30,058,688	1,502,935	30,058,688	1,502,935
Michigan	382,567	206,866	—	—	382,567	206,866
Illinois	2,037	1,019	—	—	2,037	1,019
	1,522,311	814,118	34,533,929	3,452,579	36,056,240	4,266,697

FIVE YEAR STATISTICAL REVIEW

	1973	1972	1971	1970	1969
OPERATION					
Proven Oil and Condensate Reserves (bbls.)	33,428,552	35,859,501	34,447,800	36,201,647	36,729,033
Probable Oil Reserves (bbls.)	8,172,753	9,249,714	8,953,739	9,871,416	9,536,524
Oil and Condensate Production (bbls./year)	2,413,107	2,028,611	1,696,569	1,486,547	1,421,357
Proven Gas Reserves (Thousands of cubic feet)	189,194,000	175,295,000	164,575,000	168,872,000	153,454,000
Probable Gas Reserves (Thousands of cubic feet)	51,498,000	39,198,000	40,230,000	58,359,000	22,040,000
Natural Gas Sales (Mcf/year)	4,882,617	4,437,506	4,128,975	3,847,422	2,636,178
Gross Land Holdings (acres)	36,056,240	38,709,891	38,615,713	38,493,422	110,971,379
Net Land Holdings (acres)	4,266,697	4,290,767	4,436,335	4,608,843	8,599,946
Crude oil refined (bbls.)	13,566,316	11,091,413	11,084,578	10,641,645	10,657,527
Refined product sales (bbls.)	14,122,357	15,377,590	14,015,976	12,019,762	11,811,619
Inventories of crude oil and refined products (bbls.)	2,930,099	1,942,192	2,818,623	2,411,789	1,864,681
Service stations owned or leased long term	250	312	330	342	197
Total outlets	685	913	918	905	767
FINANCIAL (U.S. Dollars)					
Total Revenues	$110,601,000	$101,166,000	$88,337,000	$75,410,000	$75,181,000
Net Income	$ 9,204,000	$ 3,152,000	$ 2,166,000	$ 1,841,000	$ 2,493,000
Earnings per share	92¢	33¢	19¢	15¢	28¢


ELLEF RINGNES AREA
BRITISH MOUNTAINS AREA
LIVERPOOL BAY AREA
KEELE RIVER AREA
ALASKA
C A N A D A
BRITISH COLUMBIA
SEE DETAIL MAP
ALBERTA
SEE DETAIL MAP
SASK.
HUDSON BAY AREA
OVERRIDING ROYALTIES
JAMES BAY AREA
LABRADOR SEA AREA
THIS MAP HAS BEEN PREPARED FROM PUBLISHED SOURCES AND IS INTENDED ONLY TO INDICATE THE GENERAL AREAS IN WHICH LEASES AND PRODUCING FIELDS EXIST THE SIZE OF MARKERS DOES NOT NECESSARILY REFLECT ACCURATELY THE AMOUNT OF ACREAGE UNDER LEASE OR COMPRISING PRODUCING AREAS, AND THE PLACEMENT OF LEASES AND PRODUCING AREAS IS NOT NECESSARILY PRECISELY ACCURATE
MICHIGAN
SEE DETAIL MAP
INDIANA
U. S. A.
ILLINOIS
ILLINOIS BASIN ACTIVITY AREA
MAFLA AREA
MEXICO
LANDS IN WHICH TOTAL HAS INTERESTS
AREAS IN WHICH TOTAL HAS CARRIED OUT OR PARTICIPATED IN EXPLORATORY WORK DURING 1973
0
500
1000 Miles
Approximate Scale

Northwest Territories
British Columbia
Saskatchewan
Montana
ALBERTA
ZAMA
SENEX
RED FISH
DIXONVILLE
ATHABASCA TAR SANDS
BEAR CANYON
JOSEPHINE
UTIKUMA
WELL
NIPISI
WANDERING RIVER
MITSUE
SWAN HILLS
CRAIGEND
KABOB
GREENCOURT
Edmonton
JOARCAM
BRAZEAU RIVER
MEDICINE RIVER
GILBY
ERSKINE
SUNDRE
HARMATTAN
GARRINGTON
CROSSFIELD
Calgary
ENCHANT
0 32 64 96 128 Miles
AREAS IN WHICH TOTAL HAS CARRIED OUT OR PARTICIPATED IN EXPLORATORY WORK DURING 1973
LANDS IN WHICH TOTAL HAS INTERESTS
1973 DISCOVERIES IN WHICH TOTAL HAS INTERESTS
GAS WELL
OIL WELL
PRODUCING OR POTENTIAL PRODUCTIVE AREAS IN WHICH TOTAL HAS INTERESTS
OIL
GAS
TAR



BRITISH COLUMBIA
0 32 64 96 128 Miles
AREAS IN WHICH TOTAL HAS CARRIED OUT OR PARTICIPATED IN EXPLORATORY WORK DURING 1973
LANDS IN WHICH TOTAL HAS INTERESTS
1973 DISCOVERIES IN WHICH TOTAL HAS INTERESTS
GAS WELL
PRODUCING OR POTENTIAL PRODUCTIVE AREAS IN WHICH TOTAL HAS INTERESTS
OIL
GAS
Yukon
Northwest Territories
MAXHAMISH
HELMET
GRADY
NIG CREEK
KOBES TOWNSEND
BOUNDARY LAKE
MOBERLY
KILKERRAN
Alberta
FERNIE
Vancouver
Washington
Idaho
Montana


Lake Huron
Lake Michigan
OTSEGO
CRAWFORD
KALKASKA
GRAND TRAVERSE
MANISTEE
MASON
TOTAL HAS INTERESTS IN 6 NEW-POOL DISCOVERIES (4 OIL & 2 GAS) IN MASON COUNTY
Alma
MICHIGAN
ST CLAIR
EATON INGHAM
DETROIT
INDIANA
OHIO
0 12 24 36 48 Miles
45°
86°
84°
43°
AREAS IN WHICH TOTAL HAS CARRIED OUT OR PARTICIPATED IN EXPLORATORY WORK DURING 1973
LANDS IN WHICH TOTAL HAS INTERESTS
1972-1973 DISCOVERIES IN WHICH TOTAL HAS INTERESTS
GAS WELL
OIL WELL
EXTENT OF NIAGARAN REEF PRODUCTION FOUND TO DATE
OTSEGO PRODUCING COUNTIES

TOTAL PETROLEUM (NORTH AMERICA) LTD.
AND SUBSIDIARIES

Consolidated Statements of Income and Retained Earnings

(United States Dollars)

INCOME

	Year Ended December 31	
	1973	1972
Revenue:		
Net sales of refined products	$103,934,000	$ 94,912,000
Net sales of crude oil and natural gas	7,611,000	5,506,000
Other income (expense) (Note 2)	(944,000)	748,000
	110,601,000	101,166,000
Expenses:		
Purchased crude oil, products and merchandise	61,869,000	62,175,000
Operating	14,989,000	12,137,000
Marketing and administrative	13,842,000	15,843,000
Depreciation, depletion and amortization	6,930,000	5,977,000
Interest on long term debt	3,694,000	3,320,000
Other interest	73,000	109,000
United States income taxes (Notes 1 and 5)	—	(1,547,000)
	101,397,000	98,014,000
Net income for the year	$ 9,204,000	$ 3,152,000
Net income per share (Note 7)	$.92	$.33

RETAINED EARNINGS

	1973	1972
Balance, beginning of year	$ 15,071,000	$ 12,780,000
Net income for the year	9,204,000	3,152,000
	24,275,000	15,932,000
Dividends on Series A Preferred shares	859,000	861,000
Balance, end of year	$ 23,416,000	$ 15,071,000

TOTAL PETROLEUM (NORTH AMERICA) LTD.
AND SUBSIDIARIES

Consolidated Balance Sheets

(United States Dollars)

Assets

	December 31 1973	December 31 1972
CURRENT ASSETS:		
Cash	$ 6,016,000	$ 3,711,000
Short term investments, at cost	15,228,000	3,269,000
Accounts and notes receivable, less allowance for doubtful accounts of $428,000 (1972 - $713,000)	9,298,000	9,916,000
Inventories of purchased crude oil, products and merchandise (Note 1)	18,728,000	7,624,000
Inventories of materials and supplies (Note 1)	1,444,000	1,004,000
Prepaid expenses and deposits	1,545,000	1,135,000
	52,259,000	26,659,000
LONG TERM RECEIVABLES AND OTHER ASSETS:		
Notes receivable	2,649,000	2,684,000
Realizable value of property held for sale (Note 2)	2,174,000	—
Other assets and deferred charges	97,000	294,000
	4,920,000	2,978,000
PROPERTY, PLANT AND EQUIPMENT (Notes 1 and 3)	147,191,000	141,541,000
Less - Accumulated depreciation, depletion and amortization	45,062,000	39,718,000
	102,129,000	101,823,000
	$159,308,000	$131,460,000

APPROVED ON BEHALF OF THE BOARD:

C Dalemont *Director*

Director

Liabilities

	December 31	
	1973	**1972**
CURRENT LIABILITIES:		
Accounts payable	$ 17,323,000	$ 7,515,000
Accrued taxes	2,836,000	2,119,000
Other accrued liabilities	1,890,000	1,043,000
Current portion of long term debt (Note 4)	2,258,000	4,489,000
	24,307,000	15,166,000
LONG TERM DEBT (Note 4)	23,858,000	40,541,000
DEFERRED PRODUCTION INCOME AND OTHER DEFERRED CREDITS	6,480,000	1,345,000
SHAREHOLDERS' EQUITY:		
Capital stock (Note 6)		
Authorized —		
5,000,000 Preferred shares of $20 (U.S.) par value each, issuable in series, of which 1,303,000 shares have been designated as $.70 (U.S.) Non-Cumulative Preferred shares, Convertible Series A		
15,000,000 Common shares of the par value of $1 (Can.)		
Outstanding —		
1,227,436 Series A Preferred shares (1972 - 1,229,728)	24,549,000	24,595,000
10,328,847 Common shares (1972 - 7,022,162)	9,819,000	6,518,000
Contributed surplus (Note 6)	46,879,000	28,224,000
Retained earnings	23,416,000	15,071,000
	104,663,000	74,408,000
COMMITMENTS (Note 9)		
	$159,308,000	$131,460,000

TOTAL PETROLEUM (NORTH AMERICA) LTD.
AND SUBSIDIARIES

Consolidated Statements of Changes in Financial Position

(United States Dollars)

	Year Ended December 31	
	1973	1972
Financial resources were provided by:		
Operations		
Net income for the year	$ 9,204,000	$ 3,152,000
Income charges (credits) not affecting working capital in the year:		
Depreciation, depletion and amortization	6,930,000	5,977,000
United States deferred income taxes	—	(880,000)
Provision for loss on disposal of properties	1,433,000	—
Financial resources provided by operations	17,567,000	8,249,000
Additional long term borrowings	5,073,000	5,547,000
Proceeds from sales of future production	6,024,000	458,000
Sale of properties	1,849,000	688,000
Issuance of common stock	21,910,000	4,000
Other	254,000	425,000
Total financial resources provided	52,677,000	15,371,000
Financial resources were used for:		
Capital expenditures		
Petroleum and natural gas interests and production equipment	9,245,000	6,277,000
Refining, marketing and transportation	3,076,000	4,605,000
Other	371,000	23,000
Long term debt paid or reclassified to current liabilities	21,756,000	5,405,000
Dividends paid	859,000	861,000
Reduction of deferred income	911,000	814,000
Total financial resources used	36,218,000	17,985,000
Increase (decrease) in working capital	$ 16,459,000	$(2,614,000)
Changes in components of working capital:		
Working capital, beginning of year	$ 11,493,000	$ 14,107,000
Increase (decrease) in current assets:		
Cash and short term investments	14,264,000	2,041,000
Accounts and notes receivable	(618,000)	84,000
Income tax refunds receivable	—	(1,697,000)
Platformer construction advances	—	(2,335,000)
Inventories	11,544,000	(4,458,000)
Prepaid expenses and deposits	410,000	(395,000)
	25,600,000	(6,760,000)
(Increase) decrease in current liabilities:		
Notes payable to banks	—	5,010,000
Accounts payable and other accrued liabilities	(10,655,000)	(115,000)
Accrued taxes	(717,000)	142,000
Current portion of long term debt	2,231,000	(891,000)
	(9,141,000)	4,146,000
Working capital, end of year	$ 27,952,000	$ 11,493,000

Notes to Consolidated Financial Statements

1. Accounting Policies:

The significant accounting policies followed by the Company and its subsidiaries are presented here to assist the reader in reviewing the financial information contained in this report.

Principles of Consolidation — The consolidated financial statements include the accounts of all subsidiaries.

The Company presents the consolidated financial statements in United States dollars because the majority of the transactions, and the major portion of the working capital and long term debt of the consolidated companies, are in that currency. Canadian assets and liabilities are translated at the rate of exchange in effect at the end of the period except that Property, Plant and Equipment and noncurrent liabilities are translated at the prevailing rates at dates of acquisition. Operating results for the period are translated at the monthly average rate of exchange during the year; depreciation, depletion, and amortization included in operating results are translated at historical rates. Unrealized exchange adjustments, which are not material, are deferred to the extent of net gains.

Inventories of purchased crude oil, products and merchandise are carried at the lower of cost (first-in, first-out) or net realizable value. Materials and supplies inventories are carried at average cost or less.

Property, Plant and Equipment is carried at cost.

All costs of exploring for and developing oil and gas reserves are capitalized and charged to operations over the life of estimated future production (proven reserves) on the unit-of-production method. This method has been followed consistently by the Company since 1965 and by subsidiaries since dates of acquisition. Proceeds of disposals are applied in full against such costs.

Depreciation and amortization are provided using the straight-line method based on estimated useful lives of assets.

Income Taxes included in the consolidated financial statements are computed on the basis of:

(i) claiming exploration and development expenditures (and Canadian lease acquisition costs) to the extent they are allowable deductions for tax purposes in the year in which they are incurred regardless of the treatment followed in the accounts. The Canadian Institute of Chartered Accountants recommends that the income tax allocation method of accounting be applied to such items, whereby the income tax provision is based on income reported in the accounts. Management does not consider it appropriate in the particular circumstances of the Company and its subsidiaries to apply the income tax allocation method to these items and this view conforms with general practice in the oil and gas industry in Canada. At the instance of the Canadian provincial securities commissions, representatives of

the oil and gas industry in Canada have undertaken a study to determine whether or not income tax allocation accounting is appropriate for such expenditures. The commissions have indicated that unless the industry can justify a departure from the recommendations of the Canadian Institute of Chartered Accountants in this regard, oil and gas companies should be prepared to adopt income tax allocation accounting in their 1974 financial statements;

(ii) not providing for taxes which would be payable upon transfer of undistributed earnings of subsidiaries since management believes that remittances of such earnings will not be made in the foreseeable future;

(iii) providing deferred taxes for other items under the tax allocation method of accounting for income taxes whereby the provision for income taxes each year is computed on the basis of depreciation and certain other charges recorded in the accounts rather than the related amounts claimed as deductions in the companies' tax returns.

Investment tax credits are applied as a reduction of income tax expense in the period earned.

Excise Taxes collected from customers are excluded from the Consolidated Statements of Income.

Pension Plans cover substantially all of the Company's employees. Current cost and accruals for prior service costs (accrued over periods from 21 to 30 years) are funded currently.

2. Provision for Loss upon Sale of Properties:

On August 7, 1973, the Company determined to make a charge of $1,650,000 to its "Other income (expense)" account. The charge was made because the Company has closed (or intends to close) and proposes to sell 65 of its retail properties. The stations to be sold had been only marginally profitable and, in the opinion of management, their continued operation was undesirable, particularly in view of the current shortage of gasoline. The assets to be sold consist of land, buildings and service station equipment. The amount of the charge to "Other income (expense)" represents the difference between the net book value of the assets to be sold (approximately $4,016,000) and the estimated amount to be realized from the sale ($2,584,000) plus expenses net of revenues expected to date of closing. At December 31, 1973 the estimated realizable value of the remaining unsold locations is reflected in the "Realizable value of property held for sale" account in the consolidated balance sheets.

3. Property, Plant and Equipment:

Property, Plant and Equipment classified by functional groupings is as follows (see also Note 4 for debt secured by property):

	1973	*1972*
Petroleum and natural gas interests	$ 72,080,000	$ 63,448,000
Production equipment	4,870,000	4,270,000
Refining	19,735,000	18,575,000
Marketing	33,048,000	39,410,000
Supply and transportation	14,166,000	14,333,000
Other	3,292,000	1,505,000
	147,191,000	141,541,000
Less — accumulated depreciation, depletion and amortization *	45,062,000	39,718,000
	$102,129,000	$101,823,000

* Including accumulated depletion related to petroleum and natural gas interests of $17,207,000 and $13,785,000 at December 31, 1973 and 1972, respectively.

4. Long Term Debt:

The following summarizes the consolidated long term debt:

Note payable in quarterly instalments of \$150,000 plus interest at prime rate plus 1% from December 1974 to September 1979	\$ 3,000,000
First real estate mortgage notes (lien on acquired property) due in quarterly instalments of \$125,000 from 1974 to 1977 and \$175,000 from 1978 to 1982, at prime rate plus 1%	5,500,000
Notes payable in annual instalments of \$600,000 to March 1, 1977, at 5⅝%	2,400,000
Note payable on June 30, 1977 at prime rate plus 1¾%	4,000,000
Other secured debt, at 4% to 9¼%	11,066,000
Other notes payable, at 6% to 8½%	150,000
	26,116,000
Less, 1974 maturities	2,258,000
	\$23,858,000

Minimum annual maturities of long term debt for the next five years are:

1974 - \$2,258,000	1976 - \$2,571,000	1978 - \$1,969,000
1975 - \$2,666,000	1977 - \$6,536,000	

At December 31, 1973 the Company or its subsidiaries had unused commitments from various banks for future borrowings aggregating \$13,500,000. Borrowings under such agreements would be at interest rates from ¾ of 1% to 1½% above prime. Commitment fees on the unused available credit are from ¼ to ½ of 1%. Under terms of the agreements these commitments will expire in May and June 1974.

5. Income Taxes:

At December 31, 1973 the Company had approximately \$20,000,000 (after reduction for \$6,000,000 of deferred production income) of drilling, exploration and lease acquisition costs and \$4,500,000 of undepreciated costs remaining to be carried forward (without limit as to time) to be applied against future income for Canadian tax purposes.

Due principally to the deduction for United States income tax purposes of certain exploration and development expenditures, the Company's United States subsidiary reported a loss on its 1972 income tax returns. The 1972 income taxes in the consolidated statement of income represents recovery of previously paid income taxes and elimination of net deferred taxes which will reverse during the loss carry-forward period. At December 31, 1973 an estimated loss of \$500,000, for financial reporting purposes, remains to be carried forward to reduce United States taxes which would otherwise be payable.

At December 31, 1973 and 1972 undistributed earnings of subsidiaries amounted to \$25,041,000 and \$19,039,000, respectively. Taxes payable upon distribution, which would amount to approximately 15%, have not been provided since management believes that such earnings will not be distributed in the foreseeable future.

If the Company had followed the income tax allocation method of accounting with respect to exploration and development expenditures (Note 1), deferred tax provisions of \$4,071,000 in 1973 and \$2,047,000 in 1972 would have been charged against income in the respective years. The accumulated deferred income taxes at December 31, 1973 would have been \$8,634,000.

6. Capital Stock, Contributed Surplus and Share Options:

On May 17, 1973 the shareholders approved an increase in the authorized number of common shares from 12,000,000 to 15,000,000. Changes in issued capital stock and contributed surplus are summarized below:

	Par Value		
	Series A Preferred Shares	*Common Shares*	*Contributed Surplus*
Balance, January 1, 1972	$24,601,000	$6,517,000	$28,215,000
Exercise of stock options (500 shares) and conversion of 309 Series A Preferred shares into 618 Common shares	(6,000)	1,000	9,000
Balance, December 31, 1972	24,595,000	6,518,000	28,224,000
Conversion of 2,292 Series A Preferred shares into 4,584 Common shares	(46,000)	5,000	41,000
Exercise of stock options (14,500 shares)	—	14,000	73,000
Sale of 3,287,601 shares, net of expenses	—	3,282,000	18,541,000
Balance, December 31, 1973	$24,549,000	$9,819,000	$46,879,000

Each Series A Preferred Share is convertible at any time, at the option of the holder, into Common shares at the rate of two Common shares for each Series A Preferred share converted, such rate of conversion being subject to adjustment in specified circumstances. Series A Preferred shares may be redeemed by the Company after December 31, 1975 at $20 per share.

The following options of directors, officers and employees to purchase Common shares of the Company were outstanding at December 31, 1973:

Granted	*Expires*	*Number of Shares*	*Option price per share*
January 15, 1969	January 14, 1974	13.600	$7.25 (Can.)
March 18, 1969	March 16, 1974	8,400	7.97 (U.S.)
December 4, 1969	January 14, 1974	3,250	7.25 (Can.)
March 31, 1971	March 30, 1976	7,500	6.00 (Can.)
November 15, 1973	March 30, 1976	10,000	6.30 (Can.)
		42,750	

Of the foregoing, 24,000 shares were under option to directors and officers of the Company. All of the outstanding options are exercisable cumulatively during the duration of the options and may be exercised only so long as the holders continue in the employ of the Company.

Options to purchase 82,200 Common shares were cancelled, or expired, during 1973.

7. Earnings Per Share:

Earnings per share for 1973 are computed on the weighted average of the Common shares outstanding during the period plus common equivalent shares represented by shares issuable upon conversion of Series A Preferred shares. For 1972 earnings per share are based only on the weighted average of Common shares outstanding because common equivalent shares were antidilutive. Dividends on the Series A Preferred shares are deducted from net income in 1972 in calculating earnings per share. The dilutive effect of share options was insignificant in both 1973 and 1972. The average shares used in calculations of earnings per share was as follows:

	1973	*1972*
Common shares	7,584,074	7,021,207
Assumed conversion of Series A Preferred shares	2,455,686	—
	10,039,760	7,021,207

Dividends paid to the Series A Preferred shareholders aggregated $859,000 in 1973, and $861,000 in 1972.

8. Pension Plans:

Pension expense for all plans was $649,000 in 1973 and $577,000 in 1972. Unfunded prior service costs aggregated $1,022,000 at December 31, 1973.

9. Commitments:

The present value of future rentals under all long term lease agreements (excluding leases of oil and gas properties) approximates $10,800,000 at December 31, 1973. Minimum annual rental payments on the above leases are approximately $1,300,000 per year through 1978, $1,050,000 per year for 1979 through 1983, $750,000 per year for 1984 through 1988 and $275,000 per year for 1989 through 1993.

Aggregate rental expense, including short term rentals but excluding leases of oil and gas properties, was $1,602,000 in 1973 as compared to $1,298,000 in 1972.

Amounts included above related to certain long term lease agreements are as follows:

Types of Property Leased	*Present Value of Future Rentals*	*Expiration Dates*	*Average Interest Factor*
Manufacturing facilities	$5,435,000	1987	7.0%
Pipeline and storage facilities	2,845,000	1993	6.5%
Marketing properties	1,021,000	1974 - 1990	6.1%
	$9,301,000		

Rental expense on these leases was $849,000 in 1973 and $519,000 in 1972. Minimum annual rental payments are approximately $1,050,000 per year through 1978, $950,000 per year for 1979 through 1983, $700,000 per year for 1984 through 1988 and $250,000 per year for 1989 through 1993. If these leases were capitalized, the effect on net income would not be significant.

10. Statutory Information:

The total direct remuneration of directors and senior officers of the Company in 1973 was as follows:

	Directors		*Officers*		*Officers who are also Directors*
	No.	*Amount*	*No.*	*Amount*	
Total Petroleum (North America) Ltd.	11	$24,900	4	$153,500	1
TOTAL Leonard, Inc.	1	12,000	5	212,000	1
	12	$36,900	9	$365,500	2

Report of Independent Accountants

To the Shareholders of

TOTAL PETROLEUM (NORTH AMERICA) LTD.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and retained earnings and of changes in financial position present fairly the financial position of Total Petroleum (North America) Ltd. and its subsidiaries at December 31, 1973 and 1972, the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Detroit, Michigan
February 15, 1974

Price Waterhouse & Co.

LITHOGRAPHED IN CANADA

~~CONSOLIDATED~~ STATEMENTS OF INCOME

(United States Dollars)

	Six Months Ended June 30	
	1973	1972
Revenue:		
Sales and other income	$53,267,000	$47,248,000 *
Costs and expenses:		
Purchased crude oil, products and merchandise	29,816,000	29,454,000
Operating expenses .	7,031,000	5,466,000
Marketing and administrative expenses	7,735,000	7,148,000
Depreciation, depletion and amortization	3,320,000	2,906,000
Interest	1,860,000	1,709,000
United States income taxes . . .	—	(596,000)
	49,762,000	46,087,000
Net income for the period .	$ 3,505,000	$ 1,161,000 *
Earnings per common share	$ .37	$ .10 *

NOTE: Earnings per Common share in 1973 are computed assuming full conversion of Series A Preferred shares into Common shares. Because assumed conversions of such shares would not have been dilutive, earnings per Common share in 1972 are computed on earnings available to Common shareholders (net income reduced by dividends to Series A Preferred shareholders). The average outstanding shares in each of the six month periods was as follows:

	1973	1972
Common shares . . .	*7,033,451*	*7,021,044*
Assumed conversion of Series A Preferred shares . . .	*2,456,166*	—
	9,489,617	*7,021,044*

Dividends to the Series A Preferred shareholders were at the rate of 35 cents per share in each of the periods presented and aggregated $430,000 in 1973 and $431,000 in 1972.

The financial statements include all normal adjustments and accruals, but are unaudited.

LITHOGRAPHED IN CANADA

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Cancorp

TOTAL PETROLEUM (NORTH AMERICA) LTD.

TOTAL

INTERIM REPORT

SIX MONTHS ENDED JUNE 30

1973

TO THE SHAREHOLDERS:

During the first six months of 1973 net income increased to $3,505,000 from $1,161,000 in the same period of 1972.

Your Board of Directors and management are pleased with the improvement in earnings, but recognize that the return on shareholders' equity is still lower than that enjoyed by many lower risk industries. Still more improvement in earnings is necessary, but the energy crisis and governmental corrective actions preclude any significant additional improvement in the second half of 1973.

EXPLORATION

During the first half of the year, your Company drilled or participated in 18 wells, 17 of which were classified as exploratory and one as development. This drilling has resulted in two oil wells, seven gas wells and nine dry holes. Three additional tests were drilling at the end of the period.

The oil discoveries are located in the Utikuma area of Alberta and in the Hamlin Lake area in Michigan. The gas discoveries and successful gas development well are located in the Moberly and Maxhamish areas of British Columbia, the Bear Canyon, Wandering River and Dixonville areas of Alberta, and in Wexford County in Michigan.

In Michigan, activities have now been stepped up and it is anticipated that one to two rigs will be drilling continuously on company lands for the remainder of the year. Portable and conventional road seismic programs were commenced at the close of the first half. This seismic is designed to follow up leads found in previous surveys and evaluate unexplored lands. Activities in Manistee County, where your Company has considerable land holdings, have increased greatly because of recent oil and gas successes by competitors. More extensive seismic programs on favorably located acreage are planned in this county in the near future.

Further aggressive acquisition, seismic and drilling programs are envisaged in follow-up to past successful discoveries in British Columbia and Alberta. Drilling, for the most part, must await suitable terrain conditions in the coming winter.

Your Company has entered into farm-in deals on approximately 80,000 acres in the Illinois Basin where some significant Niagaran reef discoveries have recently been made by others. Seismic operations have been commenced in Illinois and it is planned to participate in eight shallow-depth wildcat tests by the year's end.

PRODUCTION

Crude oil and condensate production resulting from the combined operations of your Company and its subsidiaries during the first six months of this year amounted to 1,208,705 barrels (6678 barrels per day) representing an increase of 28% over the comparative total of 945,042 barrels (5193 barrels per day) for the first half of last year. Natural gas sales increased by 3.2% to an average of 13,128 MCF per day compared with 12,652 MCF per day during the first half of 1972.

REFINING

Operations in the first half of 1973 continue to show the results of expansion projects completed in 1972. During the first six months of 1973, the Alma refinery processed 6,621,477 barrels of crude oil and condensate, compared to 5,117,852 barrels for the same period of 1972. This represents approximately 97% of pipeline capacity to deliver crude oil to the refinery.

Construction has started on a 44 mile clean products pipeline from the Alma refinery to the Company terminal in Bay City. This new 8″ pipeline will replace the existing 6″ pipeline which will then be converted to crude oil service. This program, when completed in the fall of this year, will increase the quantity of crude oil which can be delivered to the refinery and the quantity of finished products to marketing locations.

Substantial amounts of finished products have been purchased during this period to supplement production of the refinery. However, with the nation-wide petroleum product shortage these purchases have been reduced in quantity from previous years. Continuing efforts are being made to insure sufficient product supply to meet marketing requirements.

MARKETING

Overall sales of refined products at 7,283,738 barrels for the first six months of 1973 were up by 1.4% when compared to the same period of the previous year.

The tight product supply situation which developed during the period and the government guidelines on the voluntary allocation of available supplies, announced on May 10th, made it necessary to restrict sales of gasoline and fuel oil to customers during the second quarter. As a result, the overall sales of refined products for that period were 3.6% lower than those in the same period of 1972. This trend is expected to continue in the foreseeable future.

On the other hand, retail gasoline price wars practically disappeared during the second quarter throughout the marketing area, resulting in considerably improved price realizations when compared to 1972.

Sales of residual fuels, naphthas, propane and railroad diesel to the industrial market increased over the previous year while asphalts remained steady. As planned, in order to increase the availability of gasoline, sales of jet fuel were considerably lower than those in the same quarter of the previous year.

GENERAL

It is important to point out the increasing intervention of the government in the workings of the economy and more specifically in the petroleum industry. Your Company is in compliance with the voluntary allocation program instituted in the United States in May to assure all marketing organizations and outlets of an adequate supply of refined products. It, of course, also complied with all the requirements of the June price freeze and will comply with the requirements of Phase IV in the fight against inflation.

On behalf of the
Board of Directors,

ANDRE M. JACQMIN,
President

August 15, 1973

OPERATING AND LAND DATA

	Six Months Ended June 30 1973	1972
Crude oil and condensate production (bbls.)	1,208,705	945,042
Average bbls. per day	6,678	5,193
Natural gas sales (Mcf)	2,376,200	2,302,603
Average Mcf per day	13,128	12,652
Refined product sales (bbls.)	7,283,738	7,183,524
Crude oil refined (bbls.)	6,621,477	5,117,852
Gross land holdings (acres)	36,067,292	38,903,558
Net land holdings (acres)	4,324,210	4,386,521

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(United States Dollars)

	Six Months Ended June 30 1973	1972
Financial resources were provided by:		
Operations		
Net income for the period	$ 3,505,000	$ 1,161,000
Income charges (credits) not affecting working capital in the period:		
Depreciation, depletion and amortization	3,320,000	2,906,000
United States deferred income taxes	—	(24,000)
Financial resources provided by operations	6,825,000	4,043,000
Additional long-term borrowings	2,073,000	5,421,000
Proceeds from sale of future production	—	458,000
Sale of properties	587,000	168,000
Issuance of common stock	72,000	—
Other	—	—
Total financial resources provided	9,557,000	10,090,000
Financial resources were used for:		
Capital expenditures		
Petroleum and natural gas interests and production equipment	3,265,000	2,714,000
Refining, marketing and transportation	1,626,000	2,147,000
Other	10,000	16,000
Long-term debt paid or reclassified to current liabilities	3,850,000	2,644,000
Dividends paid	430,000	431,000
Reductions of deferred income	418,000	277,000
Other	38,000	44,000
Total financial resources used	9,637,000	8,273,000
Increase (decrease) in working capital	$ (80,000)	$ 1,817,000
Changes in components of working capital:		
Working capital, beginning of period	$11,493,000	$14,107,000
Increase (decrease) in current assets:		
Cash and short-term investments	511,000	(226,000)
Accounts and notes receivable	(2,366,000)	5,202,000
Inventories	2,808,000	(3,188,000)
Other	(303,000)	(423,000)
	650,000	1,365,000
(Increase) decrease in current liabilities:		
Notes payable to banks	—	660,000
Accounts payable and other accrued liabilities	288,000	518,000
Accrued taxes	(620,000)	(105,000)
Current portion of long-term debt	(398,000)	(621,000)
	(730,000)	452,000
Working capital, end of period	$11,413,000	$15,924,000